

City of Houston Debt Collection Project



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City Attorney
February 16, 2011

Debt Collection Project

Initiated by the Mayor in response to millions of dollars in uncollected receivables.

Mission



- Identify and quantify outstanding accounts receivable
- Analyze current debt collection efforts
- Assess and monitor relationships with collection firms
- Establish a citywide debt collection program
- Create guidelines and policies in support of enhanced collection efforts

Collections Taskforce



David Feldman – City Attorney

Lynette Fons – First Assistant City Attorney

Kelly Dowe – Acting Director – Finance

John Helms – Senior Assistant City Attorney

Taskforce Activities



Meetings

- All departments
- All collection firms under City contract
- Experts in the field

Data Collection

- Reports of aged accounts receivable
- Internal
- Vendor generated
 - Department and vendor protocols for collection of receivables
 - Exemplars of mailings and data screens
 - Vendor contracts

Findings

Receivables by department **without regard to age or collectability**: (as of December 31, 2010, unless otherwise noted*)

■ ARA -	\$351,490,927	■ HPL -	\$ 11,249,495
■ CEF -	\$ 233,281	■ HFD -	\$ 4,297,462
■ FIN -	\$ 77,201,007*	■ MCD -	\$ 307,632,425*
■ HAS -	\$ 2,532,603	■ PD -	\$ 17,271*
■ HPD -	\$ 10,629,638**	■ PWE -	\$ 140,867,600*
■ HLT -	\$ 382,604	■ SWD -	\$ 461,945*
■ HPARD -	\$ 25,169*		

Six outside vendors collect for city departments under seven contracts



** net



Findings

Receivables by department **without regard to age or collectability:** (as of December 31, 2010, unless otherwise noted)

MUNICIPAL COURTS DEPARTMENT (MCD)– Total \$307,632,425

- MCD (before turn over to Linebarger) adjudicated cases only : \$ 1,815,929*
- MCD (after turn over to Linebarger), adjudicated and non-adjudicated: \$305,816,496
 - Adjudicated case receivables with Linebarger (approximate) \$ 50,644,815*

▪Class C Misdemeanors (traffic, building, health & safety, BARC, permits – adjudicated and non-adjudicated)

Aged Receivables - before turn over

0-30	31-60	61-90
\$955,391	\$860,627	To Linebarger

Aged Receivables** – after turn over to Linebarger:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$7,413,112	\$4,862,905	\$5,996,035	\$17,082,590	\$27,963,457	\$89,471,252	\$153,027,145

* if collected, approximately 36.68% goes to State

** Aging commences at day 61

Outside vendor under contract to Municipal Courts Department:

Linebarger Goggan Blair & Sampson, LLP

- **MUNICIPAL COURTS DEPARTMENT –**
 - adjudicated and non-adjudicated court costs and fines
 - Under contract since 12/2000
 - Contract runs through 6/30/2012
 - Termination for cause or for convenience upon 30 days notice
 - Compensation: Statutory collection fee of 30% is added to debt (30% is maximum allowed by law)
 - Responsible for receivables at day 61

Fees paid to Linebarger under Courts contract in 2010: \$3,236,353

Linebarger's collections for Courts in 2010: \$15,327,688

*Linebarger also collects past due balances associated with false fire alarms under this contract

Findings

Receivables by department **without regard to age or collectability:** (as of December 31, 2010, unless otherwise noted)

Administration and Regulatory Affairs (ARA) - Total \$351,490,927

▪ Parking	\$ 29,074,386
▪ False Burglar Alarms	\$ 2,657,478
▪ Ambulance	\$319,610,972
▪ Franchise Fees	\$ 26,421
▪ Transportation	\$ 121,670



Outside vendors under contract to Administration and Regulatory Affairs:

1) ACS State and Local Solutions, Inc.

- Ambulance fee billing and collections
 - Under contract since 1988
 - Contract runs through 11/1/2012
 - Termination for cause or convenience on 30 days notice
 - Compensation: Sliding scale of 14-20% depending on “net collection rate” - Contract with lower level of compensation and greater collection responsibilities being renegotiated pursuant to RFP
 - Turn Key Operation responsible for all receivables as well as bills

Aged Receivables:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$7,744,085	\$3,020,581	\$3,032,561	\$8,197,725	\$14,689,352	\$66,479,693	\$216,446,975

Fees paid to ACS in 2010: \$ 4,158,486

ACS' collections in 2010: \$29,962,799 (includes monies received from primary sources such as Medicare and insurance companies)

Outside vendors under contract to ARA:

2) PAM (Professional Account Management, LLC, a Duncan Solutions, Inc. Company)

- Parking
 - Under contract since 9/2009
 - Contract runs through 8/4/2012
 - Termination for cause or for convenience with 60 days notice
 - Compensation: Revenue neutral. 30% collection fee is maximum amount authorized by statute
 - Responsible for receivables after day 106

Aged Receivables* – Current Bills (net to city):

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$323,702	\$366,098	\$292,504	\$2,274,089	\$1,702,698	\$9,287,358	\$14,827,935

Fees paid to PAM in 2010: \$462,662

PAM's collections in 2010 \$2,184,902

* Aging commences at day 106



Outside vendors under contract to ARA:

3) PMAM CORPORATION

- Burglar alarm administration and collection services
 - Under Contract since 5/2009
 - Contract runs through 5/13/2014
 - Termination for cause or convenience with 30 days notice
 - Compensation: Sliding scale of 35% on first \$500,000 to 5% above \$25 million
 - Turn Key. Responsible for invoicing and receivables from inception

Aged Receivables:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$143,542	\$134,095	\$75,563	\$361,756	\$870,315	\$927,914	\$144,289

Fees paid to PMAM in 2010: \$925,247
PMAM's collections in 2010: \$8,005,144



Findings

Receivables by department **without regard to age or collectability**: (as of December 31, 2010, unless otherwise noted)

Public Works and Engineering (PWE) – Total \$140,867,600*

▪Current bills (water and sewer)	\$46,390,381 (as of 12/10)
▪Final Billed (service off)	\$94,477,219 (as of 12/10)

Aged Receivables – Current Bills:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days
\$28,054,612	\$5,905,388	\$2,790,645	\$3,360,923	\$6,278,813

Aged Receivables – Final Bill:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$0	\$34,138	\$12,720	\$750,253	\$4,089,392	\$7,721,088	\$81,869,628

Collections in-house. An RFP for collection services has been requested

* Exclusive of receivables collected on behalf of the Solid Waste Department



Findings

Receivables by department **without regard to age or collectability:** (as of December 31, 2010, unless otherwise noted)

FINANCE (FIN) – Total \$ 77,201,007

Ad valorem taxes - \$ 76,764,973 (exclusive of penalties, fees and interest)

Aged Receivables (ad valorem):

1-3 yrs	over 3 yrs
\$28,304,704	\$48,460,269

Hotel Occupancy Tax - \$436,033 * (as of 12/15/2010)

Aged Receivables (HOT):

61-90 days	91-180 days	181-365 days	1-3 yrs
\$289,437	\$105,115	\$22,100	\$19,381



Outside vendors under contract to FIN

Linebarger Goggan Blair & Sampson, LLP

- Ad Valorem
 - Under Contract since 7/1993
 - Contract runs through 6/30/2013
 - Termination for cause or convenience with 60 days notice
 - Compensation: Revenue neutral. 20% collection fee
 - Responsible for invoicing and collections receivables from inception
 - Annual collection goal: approx. \$20 million

Fees paid to Linebarger in 2010: \$6,355,543

Linebarger's ad valorem collections in 2010: \$ 24,698,031



Findings



Receivables by department **without regard to age or collectability** (as of December 31, 2010, unless otherwise noted)

HOUSTON POLICE DEPARTMENT (HPD) – Total \$27,609,450

(if collected, after payment of 23% to ATS, 38.5% is paid to state,
City retains 38.5% or \$10,629,638)

▪Red light camera fines \$27,609,450

Aged Receivables:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$4,500	\$810,150	\$922,000	\$2,650,900	\$4,062,100	\$14,343,100	4,816,700

Outside vendor under contract for red light collections

American Traffic Solutions, Inc. (ATS)*

Linebarger is Subcontractor for collections

- Under Contract since 6/2006
- Turn Key. Responsible for all collection efforts from inception



* relationship with City is the subject of ongoing litigation

Findings



Receivables by department **without regard to age or collectability:** (as of December 31, 2010, unless otherwise noted)

HOUSTON PUBLIC LIBRARY (HPL) – Total \$ 11,249,495

(Fines for late or unreturned materials)

Aged Receivables*:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$132,676	\$96,585	\$161,750	\$351,356	\$714,135	\$2,674,457	\$7,118,535

* Aging commences at turnover i.e. day 60 or 90

Outside vendor operating under HPL contract:

Unique Management Services, Inc.

- HPL – library collections
 - Under Contract since 10/2003
 - Contract runs through 6/19/2013
 - Termination for cause and for convenience on 30 days notice
 - Compensation: 22.5% of recovery, City is charged for mailings
 - Responsible for receivables at day 60 for non-returned materials, after day 90 for fines of \$25.00 or higher

Vendor Revenue from City in 2010: \$131,710

Unique A/R Collected in 2010: \$ 585,434





Receivables by department **without regard to age or collectability:** (as of December 31, 2010, unless otherwise noted)

HOUSTON FIRE DEPARTMENT (HFD) – Total \$ 4,297,462

▪Past Due Permits and Alarms (w/vendor*)	\$ 1,247,462
▪Past Due pre-vendor (department estimate)	\$ 1,800,000
▪Special Fire Permits (department estimate)	\$ 1,250,000

*Collections under Municipal Courts Department contract with Linebarger

Aged Receivables with vendor*:

61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$38,677	\$118,677	\$211,869	\$806,538	\$71,700

* Aging commences at day 61

Receivables by department **without regard to age or collectability:** (as of December 31, 2010, unless otherwise noted)

HOUSTON AIRPORT SYSTEM (HAS) – Total \$ 2,532,603

(Terminal Rental, Landing Fees)

Aged Receivables:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs	over 3 yrs
\$1,777,121	\$575,229	\$145,534	\$35,000	(\$75,000)	(\$146,069)	\$220,787



Findings

Receivables by department **without regard to age or collectability**: (as of December 31, 2010, unless otherwise shown*)

Less than one million in receivables:

SOLID WASTE MANAGEMENT (SWD) - Total \$461,945*

- non-residential garbage \$ 7,459
- extra capacity garbage \$238,797
- dumpster permits \$215,690

PWE collects for SWD

* as of 12/10

Aged Receivables Non-Residential Garbage:

30 days	60 days	90 days	over 120 days
\$2,221	\$1000	\$664	\$3,574

Aged Receivables Extra Capacity Garbage:

30 days	60 days	90 days	over 120
\$14,530	\$13,837	\$8,596	\$201,833

Aged Receivables Dumpster: Not available



Findings

HEALTH AND HUMAN SERVICES (HLT) - Total \$382,604 (permits)

Aged Receivables:

0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 yrs
\$64,938	\$54,108	\$26,344	\$113,519	\$83,143	\$40,551

CONVENTION AND ENTERTAINMENT FACILITIES (CEF) – Total \$233,281 (lease fees)

Aged Receivables:

0-30 days	31-60 days	61-90 days	91-180 days
\$176,176	\$21,871	\$32,431	\$2,800



Findings

HOUSTON PARKS AND RECREATION (HPARD) - Total \$ 25,169*

(NSF checks for fees) *as of 1/11/2011

Aged Receivables:

31-60 days
\$275

Over 3 yrs
\$24,894

PLANNING AND DEVELOPMENT (PD) - Total \$ 17,271*

(fees and permits) * as of 1/21/2011

Aged Receivables:

0-30 days
\$460

91-180 days
\$355

181-365 days
\$355

1-3 yrs
\$6,718

over 3 yrs
\$9,384



Findings



- Decentralized collection activities
- Debt tracking systems lack cross-department compatibility
- Debt tracking and billing systems are antiquated

As a consequence, collection and comparison of data on a city-wide basis is unnecessarily complex and it is difficult if not impossible for departments to support one another's collection efforts through data sharing.

- Level and type of collection activity varies widely from department to department

Findings

Insufficient emphasis on collection efforts and receivables

- Reports to management often informal and/or cursory
- Minimal effort expended even on debt easiest to collect
- Over-reliance on outside vendors
- Lack of sophistication -
 - Information gathered often fails to support long-term collection efforts
 - Unquestioned acceptance of vendor performance

No protocol for hiring and use of outside vendors

- Vendors lack sufficient oversight
- Absence of meaningful performance metrics



Solving the Problem

Create a citywide collections unit

- Practice has been adopted by other large municipalities
- Can be accomplished at a fraction of the cost paid annually to collection vendors
- Ensures consistency and appropriate oversight
 - City collection efforts
 - Outside vendors



Change the paradigm

- City as primary collection agent
- Vendors take on secondary role and collect older debt

Solving the Problem

Establish protocols and define best practices

- Content and frequency of reports to Mayor, Council and others
- Frequency and content of notifications to debtors
- Identification of persons unable as opposed to unwilling to pay
- Use and availability of collections tools
 - Outgoing calls
 - Demand letters
 - Interest and fees as allowed by law
 - Booting, warrants, registration holds
 - Credit bureau reporting
 - Amnesty programs
 - Payment mechanisms and installment plans
 - Litigation



Solving the Problem

Establish protocols and define best practices (continued)

- Hiring, use and supervision of vendors
 - Meaningful performance metrics
 - Approved report parameters
 - Age of debt to be referred
 - Vendor audits
 - Payment criteria
- Data collection and storage
 - Information to be obtained
 - Format for maintaining information
 - How and when to update data
 - Protection of sensitive data



Solving the Problem

Promote strategic partnerships

- Citywide
- City/County – Registrations
- City/State – Registrations



Employee education and training

- Importance of collecting receivables
- Best practices
- Information sharing

Invest in necessary software, if feasible

Debt Collection Initiatives – February-March 2011

- Citizens placed on notice that collection of receivables is a high priority. Aggressive collection activities will be the norm
- Centralized **Debt Collection Unit** established
 - Dual report to Director of Finance and City Attorney
 - Scott Feldman, CPA, MBA tapped to be City Collections Manager
- Collection vendors and City commencing special demand letter campaign
- Negotiate with county regarding license registration holds
- Increased warrant activity on delinquent non-adjudicated receivables
- Litigation to be initiated absent response to demand letters
- Departments and collections unit to make regularly scheduled reports to Mayor and Council

Solving the Problem

Get tough on debtors, now

